

Message Text

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TAGS: EGEN, HK

SUBJECT: ANNUAL BUDGET SPEECH: BRIGHT OUTLOOK BUT SLOWER GROWTH

SUMMARY: HONG KONG'S FINANCIAL SECRETARY (FS) PHILIP HADDON-CAVE, PRESENTED THE FY 1977-78 BUDGET TO THE LEGISLATIVE COUNCIL ON MARCH 2. BOLSTERED BY A 16 PERCENT EXPANSION OF THE ECONOMY IN 1976 THE GOVERNMENT SUBMITTED A RECORD US\$1.65 BILLION BUDGET, UP 20 PERCENT OVER THE PRESENT YEAR. HADDON-CAVE PREDICTED, HOWEVER, A SLOWER GDP GROWTH RATE AND HIGHER INFLATION OVER THE NEXT YEAR. GDP GROWTH WILL BE LIMITED TO 7 PERCENT IN 1977 DUE TO FULL CAPACITY AT PRESENT AND A MAXIMUM 4 PERCENT RISE IN THE LABOR FORCE AND PRODUCTIVITY. INFLATION WILL BE 5-6 PERCENT ABOVE 1976. THE BUDGET, NEVERTHELESS, STILL INCORPORATES AN \$8 MILLION SURPLUS AFTER MINOR TAX CONCESSIONS. IMPORTS ARE EXPECTED TO RISE 10 PERCENT WHILE UNCERTAIN MARKETS ABROAD WILL LIMIT EXPORT GROWTH TO 5-7 PERCENT. GOVERNMENT EXPENDITURES WILL RISE MOST SHARPLY IN THE SOCIAL SERVICES AND POLICE SECTORS. THE NEXT FOUR YEARS WERE VIEWED WITH CONFIDENCE ALTHOUGH FUTURE GROWTH WAS DEPENDENT ON DEVELOPMENTS IN OVERSEAS MARKETS, OF WHICH THE US WAS SEEN AS THE MOST PROMISING. END SUMMARY.

1. IN 1976 HONG KONG REBOUNDED FROM THE 1974-75 RECESSION WITH
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A 16 PERCENT GDP GROWTH RATE. UNEMPLOYMENT STANDS AT THE FULL EMPLOYMENT LEVEL OF APPROXIMATELY 4.5 PERCENT WHILE NOMINAL WAGE RATES ROSE 16 PERCENT IN THE FISCAL YEAR ENDING SEPTEMBER 30, 1976. THE LABOR FORCE AND PRODUCTIVITY ARE EXPECTED A GROW AT A MAXIMUM OF 3-4 PERCENT PER YEAR AND SO WILL CONSTRAIN FUTURE GDP GROWTH TO 6-7 PERCENT. THE QUICK 1976 RECOVERY WAS DUE PARTLY TO LOW INFLATION RATES (AROUND 3.4 PERCENT), AND APPRECIATED

HONG KONG DOLLAR IN THE EXCHANGE MARKET AND A 43 PERCENT INCREASE IN THE VALUE OF EXPORTS DURING THE YEAR. THE BUSINESS UPTURN PRODUCED UNANTICIPATED REVENUES, LEADING TO A PROJECTED \$170 MILLION SURPLUS AT THE END OF FY1976-77. (ALL FIGURES AT US\$1.00-HK\$5.00).

2. REFLECTING THE PRUDENCE THAT HAS BECOME HIS HALLMARK, HADDON-CAVE ESTIMATED TOTAL REVENUE AT APPROXIMATELY \$1.657 BILLION. VARIOUS INTERNAL REVENUE TAXES PROVIDE NEARLY ONE-HALF (46 PERCENT) OF THIS SUM, WITH REAL ESTATE TAXES, LAND SALES AND DUTIES CONTRIBUTING SIGNIFICANTLY TO THE TOTAL. INTERNAL REVENUE COLLECTIONS AND DUTIES SHOULD RISE IN CONGRUENCE WITH THE RATE OF GDP INCREASE TO YIELD \$780M AND \$146M RESPECTIVELY IN 1977-78. REAL ESTATE TAXES ARE FORECAST TO BRING \$153.4M IN 1977-78, UP 24 PERCENT DUE TO THE NOVEMBER '76 PROPERTY REVALUATION. CAPITAL ACCOUNT REVENUE FROM SALES OF GOVERNMENT LANDS IS ESTIMATED AT \$147.2M, UP 22 PERCENT FROM 1976-77, AS HKG RECLAMATION SCHEMES "PRODUCE" MORE LAND AND BRITISH MILITARY LANDS REVERT TO THE HKG FOR DISPOSAL.

3. AGAINST ANTICIPATED REVENUE OF \$1.657 BILLION, HADDON-CAVE PLANS TO SPEND \$1.649 BILLION. ROUGHLY \$1.247 BILLION (76 PERCENT) WILL COVER RECURRENT EXPENDITURES SUCH AS GOVERNMENT EMPLOYEE SALARIES/BENEFITS, VARIOUS GOVERNMENT SUBSIDIES (TO PRIVATE SCHOOLS, FOR INSTANCE), DEFENSE, PUBLIC DEBT SERVICE AND MISCELLANEOUS PUBLIC WORKS. THE REMAINING \$402M FOR CAPITAL EXPENDITURES REFLECTS CONTINUED HEAVY INVESTMENT IN PUBLIC HOUSING, "NEW TOWN" CONSTRUCTION IN THE NEW TERRITORIES AND INFRASTRUCTURE DEVELOPMENT. CONSOLIDATING RECURRENT AND CAPITAL EXPENDITURES TO SHOW UNCLASSIFIED

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PATTERNS OF GOVERNMENT SPENDING, HADDON-CAVE STRESSED THE GOVERNMENT'S COMMITMENTS TO PUBLIC SAFETY, IMPROVED PUBLIC HOUSING, AND EXPANDED EDUCATIONAL, MEDICAL AND SOCIAL SERVICES. HADDON-CAVE SUGGESTED THAT, ONCE HK'S AMBITIOUS "NEW TOWN" PROGRAM HAS BEEN COMPLETED (1981-84), TRANSPORT AND COMMUNICATIONS WILL BECOME THE AREA OF CAPITAL-INTENSIVE DEVELOPMENT. A RECENT COMPREHENSIVE TRANSPORT STUDY AND A WHITE PAPER NOW BEING DRAFTED IMPLY CAPITAL EXPENDITURES OF \$2.4 BILLION IN THAT SECTOR, HADDON-CAVE SAID.

4. REACTIONS: PUBLIC REACTION TO THE BUDGET WHICH THE PRESS CALLED "PAINLESS WITH A LITTLE SOMETHING FOR EVERYONE" WAS GENERALLY FAVORABLE. THERE WAS AN AUDIBLE SIGH OF RELIEF THAT THERE WERE TO BE NO TAX INCREASES AND PLEASURE OVER THE INCREASED PERSONAL AND CHILDREN'S ALLOWANCES FOR LOWER INCOME GROUPS. THE INCREASE IN RATEABLE VALUES OF PROPERTY, HOWEVER, IS STILL A HOTLY DEBATED ISSUE, ENVELOPED IN CONFUSION BETWEEN "RATEABLE VALUES" (WHICH INCREASED) AND "RATES (WHICH DECREASED)". MANY HONG KONG PAPERS SAW HADDON-CAVE'S NEW BUDGET AS A STABLE AND

BALANCED PLAN WHILE THE REACTION OF VARIOUS INTEREST GROUPS VARIED
ACCORDING TO THE INCREASE IN THEIR FUNDING. THE COMMUNIST
PRESS LEVELED ITS USUAL CRITICISMS THAT IT WAS THE HKG'S
STANDARD "MAGIC SHOW" WHICH SUPERFICIALLY LOOKS GOOD BUT IN
FACT BENEFITS ONLY THE GOVERNMENT AND THE WEALTHY, NOT THE
"PEOPLE". THE SURPLUSES WERE SEEN AS FURTHER EVIDENCE THAT
THE GOVERNMENT IS NOT DOING ENOUGH AND IS STILL MILKING THE
ECONOMY.
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